

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND HANTAM MUNICIPAL COUNCIL

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Hantam Municipality which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion the financial statements present fairly, in all material respects, the financial position of the Hantam Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with the SA Standards of GRAP and in the manner required by the Municipal Finance Management Act .

Emphasis of matter

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Irregular/Fruitless and wasteful expenditure

8. As disclosed in note 27.2 to the financial statements, fruitless and wasteful expenditure to the amount of R24 213 was incurred as officials from the municipality elected to travel to attend a meeting with Provincial Treasury instead of using cheaper options such as teleconferencing.
9. As disclosed in note 27.3 to the financial statements, irregular expenditure to the amount of R3 633 123 was incurred because the proper tender process had not been followed by the municipality and a tender was awarded in phases to avoid complying with the procurement policy and Supply Chain Management regulations.

Additional matters

10. The supplementary information set out on appendix A to F does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In terms of the PAA of South Africa and *General notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, Division of Revenue Act, 2009 (Act No.12 of 2009)(DoRA), Municipal Regulations, Municipal Systems Act, 2000 (Act No.32 of 2000)(MSA), Municipal Structures Act, 1998 (Act No.117 of 1998) and financial management (internal control).

Predetermined objectives

Non-compliance with regulatory requirements

12. I could not conduct the audit of performance against pre-determined objectives as the Hantam Municipality did not prepare the annual performance report as required in terms of section 46 of the MSA.
13. In contravention of sections 26(a – i), 36, 38 and 41 of the Municipal Systems Act the municipality did not implement a performance management system or prepare quarterly and annual performance reports or a financial plan with budget projections covering at least the next three years.
14. In contrast to sections 7, 8 and 14(2) of the Municipal Planning Management and Performance Regulations, the municipality did not adopt a performance management system or implement a performance audit committee.

Compliance with laws and regulations

Municipal Finance Management Act

15. Contrary to section 126(a) of the MFMA the municipality did not submit the annual financial statement for auditing within two months after the financial year to Auditor-General for auditing.
16. In contrast with section 166(1) of the MFMA the municipality did not have a functioning audit committee during the period under review, which resulted in effectiveness of the internal control system not being reviewed.
17. In contrast with section 165 of the MFMA, the municipality did not have an internal audit function for the financial period under review.
18. In contrast with section 126(1)(a) of the MFMA, the municipality did not submit annual financial statements within the prescribed timeframe.
19. In contrast with section 62(1)(c)(i) of the MFMA, no formal risk assessment were performed for the financial period under review and the municipality did not have a risk committee.
20. In contrast with section 32(4)(a) of the MFMA, the municipality incurred fruitless and wasteful expenditure during the year under review but the accounting officer did not inform the MEC for local government in the province and the Auditor-General in writing of the fruitless and wasteful expenditure.
21. In contrast with section 17(2) of the MFMA, the municipality's annual budget did not include a three-year capital expenditure budget exclusively allocated to Municipal Infrastructure Grant (MIG) projects (as per the Integrated Development Plan).
22. In contrast with section 9 of the MFMA, I could not obtain documentary proof that the required communication regarding the bank account details was submitted to the Provincial Treasury and Auditor General for the financial year under review.
23. In contrast with section 65(2)(e) of the MFMA, the creditors were not paid within 30 days of receipt of the invoice.
24. In contrast with section 13(4)(a) of the MFMA, the Auditor General was not notified within 30 days after year end of the investments held by the municipality with external financial institutions.

Municipal Systems Act

25. In contrast with section 21B of the Municipal Systems Act, the municipality does not have an official website.

Division of Revenue Act

26. In contrast with section 26(1) of the Division of Revenue Act, the municipality withdrew funds from the MIG (Municipal Infrastructure Grant) investment account to fund the day-to-day operational expenditure of the municipality.

Supply Chain Management

27. In contrast with Section 46(3) of the Supply Chain Management regulation some employees did not declare their interest in contracts for the financial period under review.
28. In contrast with section 17(1)(a) of the Supply Chain Management Regulations, the municipality did not always obtain three written quotations.
29. In contrast with section 14(1)(a)(i) of the Supply Chain Management regulation, goods and service were acquired from suppliers who did not appear on the municipality's list of accredited prospective providers of goods and service.

INTERNAL CONTROL

30. I considered internal control relevant to my audit of the financial statements as well as compliance with the Municipal Finance Management Act, 2003, but not for the purpose of expressing an opinion on the effectiveness of internal control.
31. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

32. Leadership instability at key management positions resulted in financial and risk management and internal control responsibilities not being fully achieved. No permanent Municipal Manager or Chief Financial Officer had been appointed at the municipality. A process has been started on the appointment of suitable candidates for both posts however no appointments have been made to date. As a result sufficient actions to address audit findings and to exercise sound corporate governance at the municipality were not taken in a timely manner.
33. An information security officer had not been appointed. System administrators or controllers were not reviewed by an independent person. Access request forms were not completed. Users' access was not periodically reviewed to ensure that it remained commensurate with their job description. The security officer function and activities were not separated from those of the system administrator.

Financial and performance management

34. The financial statements were subjected to material corrections resulting from the audit process which could be attributed to the weaknesses in design and implementation of internal control in respect of financial management, a lack of response to identified risks and weaknesses in information systems.

Governance

35. The municipality did not have a functional audit committee and internal audit function during the year under review. No risk assessment was not performed or implemented during the current year. The fraud prevention plan as well as certain internal policies and procedures had not yet been compiled and implemented.

Auditor-General

Kimberley

17 December 2010



A U D I T O R - G E N E R A L